

Message Text

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ACTION EA-10

INFO OCT-01 NEA-09 ISO-00 EB-07 XMB-02 AGR-05 USIA-06 /040 W
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P R 190855Z FEB 75

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC PRIORITY 6653

USDOC WASHDC PRIORITY

AMEMBASSY KUWAIT PRIORITY

INFO AMCONSUL HONG KONG

AMEMBASSY SINGAPORE

AMCONSUL MEDAN

AMCONSUL SURABAYA

LIMITED OFFICIAL USE SECTION 1 OF 2 JAKARTA 2080

DEPT PASS EXIM, STATE FOR EA/IMS GEBER, USDOC FOR MEPD
HONG KONG FOR RAND

EO 11652: N/A

STAGS: BEXP ID

SUBJ: SUGAR MILL CONSTRUCTION

REF: A. STATE 031765 B. KUWAIT 0475 C. JAKARTA 1048

1. BEGIN SUMMARY. GOI DISCUSSIONS WITH SEVERAL
FOREIGN EXPORT CREDIT AGENCIES RE WIDE VARIETY
PROJECTS APPARENTLY CAUSING MULTITUDE UNSUBSTANTIATABLE
RUMORS OF "COMMITTED " PROJECTS. EMBASSY REQUESTS
USDOC:MEPD ADVISE SUGAR TASK FORCE BE PREPARED
FACE THIS CONFUSION ON ARRIVAL JAKARTA. BAPPENAS
OFFICIAL INDICATES GOI HOLDING BACK REQUEST THAT
EXIM GIVE INDONESIAN SUGAR PROJECTS HIGHER PRIORITY
FOR FEAR JEOPARDIZING OTHER GOI APPLICATIONS.
EMBASSY REQUESTS EXIM CONSIDER SCHEME INVOLVING
TENTATIVE EXIM COMMITMENT NOW ON SUGAR PROJECTS
BUT WITH FUNDS DRAWN DOWN DELAYED TO FY1976.
(EXIM VISITING REPS CLARK AND CLAPP HAVE NO
OBJECTION THIS SUGGESTION.) CONVERSATION WITH
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FINANCE MINISTRY RE POSSIBLE KUWAITI FUNDS FOR
SUGAR REPORTED, AND JAKARTA POUCHING PRIVATE SUGAR

MILL PROPOSAL TO EMBASSY KUWAIT AND ASKS THAT EMBASSY KUWAIT
REPORT KUWAITI REACTIONS AND ENCOURAGE KUWAIT REPS VISIT
INDONESIA IF INTERESTED THIS AND OTHER OPPORTUNITIES.
END SUMMARY

2. JAKARTA IS FULL OF REPORTS SUGGESTING FULL RANGE
POSSIBILITIES, FROM ALL SUGAR MILLS ALREADY COMMITTED
TO NONE COMMITTED, INCLUDING STORIES THAT VARIOUS
SUPPLY COUNTRIES CAN SUPPOSEDLY LOCKED UP ONE OR
MORE OF THESE SUGAR MILLS PLUS WIDE ARRAY OTHER LARGE
PROJECTS. TOTALITY ALL THESE SUPPOSED "COMMITMENTS"
SEEMS BEYOND ANY REASONABLE ESTIMATE OF SEMI-SOFT
FUNDS ACTUALLY AVAILABLE TO INDONESIA FROM DEVELOPED
COUNTRIES. WE THEREFORE CONCLUDE THAT GOI, SHOP-
PING AROUND FOR BEST FINANCIAL DEAL ON WIDE VARIETY
PROJECTS, HAS ASKED SEVERAL COUNTRIES LOOK AT SAME
PROJECT, AND PROBABLY HAS MADE NO RPT NO FIRM
COMMITMENTS AS YET. IF MATTERS FOLLOW TRUE TO FORM
IN INDONESIA, THIS CONFUSED PICTURE WILL PROBABLY
CONTINUE RIGHT UP TO, OR EVEN BEYOND, DAY OF
ACTUAL SIGNING. US FIRMS PARTICIPATING SUGAR
TASK FORCE MUST COME PREPARED FACE THIS CONFUSION
WITHOUT BEING DISTRACTED FROM GOAL. SUCCESSFUL FOREIGN
FIRMS HERE HISTORICALLY HAVE HAD TO PERSEVERE IN
FACE OF GREAT UNCERTAINTY; FOR INDONESIAN ENVIRONMENT
IS ONE OF CONSTANT CHANGE, IN WHICH DETERMINED
BID CAN OFTEN REVERSE PREVIOUSLY APPARENT COURSE
PROJECT WAS GOING.

3. EMBOFFS SPOKE WITH BAPPENAS DEP CHAIRMAN
SALEH AFFIF FEB 7 RE PRIORITY GOI GIVES SUGAR IN
EXIM APPLICATION. SALEH SAID NOTIONALLY GOI HAS
MOVED SUGAR MILLS FROM ALSO-RAN CATEGORY UP TO TOP
PRIORITY GROUP OF PROJECTS SUBMITTED TO EXIM, BUT
THAT GOI HAS NOT RPT NOT SAID THIS TO EXIM AND DOES
NOT RPT NOT WANT DO SO FOR FEAR SUCH SIGNAL MIGHT
DELAY OR DISTRACT EXIM FROM THREE PROJECTS STILL
AWAITING EXIM COMMITMENTS: DC10, PLN, AND WATER
PROJECT. GOI WANTS OBTAIN COMMITMENTS ON THESE
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THREE PENDING PROJECTS BEFORE FORMALLY REQUESTING
THAT SUGAR BE GIVEN TOP EXIM PRIORITY. HE NEVERTHE-
LESS INDICATED THAT THEY WOULD BE VERY PLEASED IF
EXIM OFFERED ON ITS OWN TO FUND SUGAR MILLS.

4. SALEH ALSO INDICATED SECOND HURDLE NOW DELAYING
OTHER EXIM PROJECTS IS GOI ATTEMPT OBTAIN MATCHING
COMMERICAL FUNDS AT 1 1/4 PERCENT ABOVE LIBO.

5. EVENTUALLY BOTH THESE LOG JAMS WILL BE OVERCOME,

PROBABLY IN COMING WEEKS; BUT EMBASSY FEARS BY TIME
RESOLUTION TAKES PLACE FIRST GROUP SIX NEW GOI MILLS
MAY ALREADY BE COMMITTED TO FOREIGN COMPE-
TITORS THUS CAUSING US LOSE ABOUT \$240 MILLION
IMMEDIATE TERM OPPORTUNITY AND PREJUDICING OUR
CHANCES AGAINST DEEPLY ENTRENCHED FOREIGN COMPETITORS
IN FUTURE OPPORTUNITIES WORTH \$350-700 MILLION.
THEREFORE, EMBASSY REQUESTS EXIM CONSIDER
POSSIBILITY SUGGESTING TO GOI WILLINGNESS TO CONSIDER REQUEST FOR
PC (OR AT LEAST ORAL COMMITMENT)-CONDITIONAL ON EVENTUAL
SUBMISSION ACCEPTABLE FEASIBILITY STUDY AND (IF NECESSARY)
CONTAINING STIPULATION THAT DRAW DOWN OF EXIM
FUNDS WILL BE DELAYED UNTIL COMING FISCAL YEAR.
SINCE UNLIKELY ANY SIGNIFICANT SHARE OF FUNDS COULD
BE EXPENDED IN REMAINING FOUR MONTHS OF US FY
ANYWAY, ABOVE PROPOSED ARRANGEMENT SHOULD MEET GOI REQUIREMENTS
WITHOUT WE BELIEVE, CREATING LENDING CEILING PROBLEMS FOR EXIM IN
FY 75. SUCH OFFER IN HANDS OF US SUGAR TASK FORCE WOULD
ENABLE THEM MAKE SERIOUS BID FOR IMMEDIATE OPPOR-
TUNITIES AND FUTURE MARKET POSITION.

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ACTION EA-10

INFO OCT-01 NEA-09 ISO-00 XMB-02 EB-07 AGR-05 USIA-06 /040 W

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P R 190855Z FEB 75

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC PRIORITY 6654

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LIMITED OFFICIAL USE SECTION 2 OF 2 JAKARTA 2080

6. AFTER REPEATED ATTEMPTS COMMERCIAL COUNSELOR
FINALLY ABLE REACH YULIANTO, DIRECTOR GENERAL,
MENETRARY AFFAIRS, MINISTER FINANCE BY PHONE TO RAISE

QUESTIONS POSED REFS B AND C. YULIANTO INDICATED THAT GOI-OWNED SUGAR MILLS WOULD BE USED 100 PERCENT FOR DOMESTIC CONSUMPTION. SINCE PRICES ARE CONTROLLED FOR DOMESTIC CONSUMPTION, HE THOUGHT FOREIGN INVESTORS MIGHT NOT RPT NOT FIND INVESTMENT IN GOI MILLS PARTICULARLY ATTRACTIVE; BUT HE SAID THERE IS NO RPT NO RULE AGAINST SUCH FOREIGN EQUITY PARTICIPATION. HE ADDED THAT FOREIGN INVESTORS MIGHT FIND INVESTMENTS IN PRIVATE MILLS MORE ATTRACTIVE THAN GOI MILLS IF PRIVATE MILLS ARE ALLOWED TO EXPORT, BUT HE INDICATED THAT EXPORT AND INVESTMENT POLICY FOR PRIVATE MILLS IS SET BY SATAR LUBIS (BKUPNP) AND BARLI HALIM, CHAIRMAN, CAPITAL INVESTMENT COORDINATING BOARD (BKPM). YULIANTO ALSO ASKED IF KUWAITI CAPITAL MIGHT BE AVAILABLE FOR OTHER PROJECTS AS WELL AND IT WAS SUGGESTED THIS MATTER COULD BE REVIEWED AT LATER TIME.

7. IN COURSE OUR EXPLORATIONS RE FINANCING, WE HAVE DISCOVERED THAT BANK OF AMERICA (BA) HAS APPLICATION LIMITED OFFICIAL USE

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FROM PRIVATE INDONESIAN SUGAR FIRM WHO SEEKING FINANCING TO BUILD COMPLETE SUGAR PROJECT IN BANUWANGI, E. JAVA. BA THINKS PROPOSAL ATTRACTIVE, BUT FIRM LACKS ADEQUATE EQUITY AT THIS POINT TO MAKE BA LOAN POSSIBLE. EMBASSY HAS ASKED BA DETERMINE WHETHER CLIENT INTERESTED IN KUWAITI PARTICIPATION AND, IF SO, SUPPLY EMBASSY WITH COPY ALL DOCUMENTATION. WE WILL FORWARD THIS MATERIAL TO EMBASSY KUWAIT FOR REVIEW BY KUWAITI OFFICIALS IF IT IS SUPPLIED. BA THINKS INDONESIAN FIRM MAY HAVE CONNECTIONS NECESSARY NEGOTIATE PERMISSION FOR FOREIGN EQUITY POSITIN AND POSSIBLE EXPORT PRIVILEGES, EVEN THOUGH SITE LOCATED ON JAVA (WHICH THEORITICALLY CONFINED TO DOMESTIC INVESTMENT AND CONSUMPTION). IN ANY CASE, THIS PROPOSAL SHOULD GIVE KUWAITIS SPECIFIC CASE TO EXAMINE AND DETERMINE FINANCIAL ATTRATIVCNESS OF PURSUING. WE EXPECT PROPOSAL WILL SHOW PROJECTED PROFITABILITY AND CASH FLOW FOR BOTH DOMESTIC SALES ALONE AND FOR PARTIAL EXPORTS.

8. WE UNCERTAIN EXACTLY WHAT ASPECTS OF "EQUITY" KUWAITIS FIND SO APPEALING; AND WE, THEREFORE, UNABLE EVALUATE INTEREST THEY MIGHT SHOW IN PRIVATE OR GOI PROJECT WHICH CONFINED TO DOMESTIC SALES. IF THEY NOT RPT NOT TURNED OFF BY PROSPECT OPERATING SOLEY IN DOMESTIC MARKET WITH CONTROLLED PRICES, THEY MIGHT WISH SERIOUSLY CONSIDER SENDING REP HERE, PERHAPS AT TIME OF US SUGAR TASK FORCE VISIT (MARCH 2-7),

TO EXPLORE SEVERAL POSSIBILITIES WHICH WOULD BE OPEN
TO THEM IN BOTH PRIVATE AND PUBLIC SECTOR. IF THEY
REGARD EXPORT PRIVILEGE AS ESSENTIAL, THERE MAY STILL
BE, ALBEIT MORE LIMITED, NUMBER OF OPPORTUNITIES, TWO OF
WHICH HOPEFULLY WILL BE OUTLINED PROPOSAL FORM BY MARCH 3
TASK FORCE VISIT HERE.

9. WOULD APPRECIATE EMBASSY KUWAIT COMMENTS RE
ABOVE STRATEGY AND YOUR UNDERSTANDING OF
WHAT KUWAITIS LOOKING FOR IN EQUITY POSITION.
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